TRENDS

Tobacco merchandising

Peoples displays cigarette cartons behind the counter in its store at Du Pont Circle, Washington, D.C.

*Increase in moist snuff sales help smokeless tobacco sales hold steady**

(Vendors' domestic sales in millions of pounds)

Category	1983	1989	% change from 1988
Loose leaf	70.9	63.5	(1.9%)
Moist snuff	35.0	41.9	4.6
Plug	14.0	8.1	(4.4)
Dry snuff	10.7	7.1	(6.8)
Twist	1.7	1.3	(6.8)

*Total pounds shipped in all categories is down 0.3% in 1989 from 1988.

Source: Annual Report of Tobacco Statistics, U.S. Department of Agriculture.

Assortments, in-stocks drive tobacco profits

Continued from page 15

"We want to make this category as available to customers as possible," Elliott added.

In Pay Less's new prototype stores, the front-of-store area is dominated by staffed cosmetics and photo counters. Cartons, remaining self-service, are moved to a low-profile, four-row, straight-line fixture set between the checkouts and the front window.

Single packs are merchandised from a Philip Morris spring-loaded fixture that shows packs full-face at a checkout adjacent to the information checkout. Price/value brands receive their own fixture, also at the information stand.

The Philip Morris carton rack features an electronic security system in which a beeper and light is activated at the fixture and a remote beeper on a supervisor's belt is set off when too many cartons are pulled too quickly.

Cigarette merchandisers face the perennial task of balancing the needs of maximizing sales with self-sevice fixtures while protecting against shrinkage, which many feel means cigarettes should be behind a counter.

Retailers who insist on behind-the-counter displays can benefit from vendors' non-self-service programs, in which retailers are paid allowances when they achieve a minimum sales level for the product, and allocate a minimum of rows and linear feet to correspond with market share.

Fixtures ignite wars

"The problem is once you use one of the vendors' racks, the other vendors won't pay allowances. You start a war with the other manufacturers. I'm better off not using their fixturing," groused one buyer.

Bartell Drug in Washington state is closely monitoring display alternatives. "More and more retailers are putting cigarettes behind the counters or locking them up. That's putting more pressure on the [remaining] self-service displays," said buyer John Weith. While Bartell has kept self-service in 12 stores, "we're reviewing that almost on a weekly basis," he said.

The lock-up of cartons and smokers' efforts to cut their consumption are two reasons why carton sales are declining as a percentage of total sales, Weith observed.

That can mean more profit, with cartons' margins at 10 percent or less while single packs hit the mid-20s. Meanwhile, sales of branded generics, such as RJR's Doral and Philip Morris' Cambridge, continue to drive the higher margin "value for money" segment, buyers said.

While there is less demand for generics in many of the well-off Long Island neighborhoods that Austin Drugs calls home, most smokers are price conscious and will shop around, observes Marty Millman, merchandise manager.

Heavy couponing on cartons and packs by vendors, along with Austin's regular in-store display promotions, have helped offset the climbing price hikes that Austin is required to push through to a minimum level by state law, said Millman.

To flag smokers' attention, Millman periodically puts out week-long floor displays featuring premiums such as two packs-for-the-price-of-one or a free lighter. "It's a way to keep consumers happy," said Millman.

Teams, multi-packs light up lighters

Team licenses and multi-pack merchandising will be part of 1990s marketing arsenal to drive sales of disposable lighters.

Bic is adding imprints of major league baseball teams to lighters, after doing well with professional football imprints, which will continue this fall, said Steve Buckingham, Bic assistant product manager. "We see the market as a mature one, but we think there is still growth [to be achieved] for the right products," he said.

Bic projects that unit retail sales for all vendors will be 495 million in 1990, down from 500 million in 1989, and 510 million in 1988, when the market peaked.

A planned April 3 freestanding insert promoting a lighter five-pack, with a one dollar refund, will be part of Bic's effort to encourage multipack sales. Its mini-Bic three-pack reportedly sold well last year.

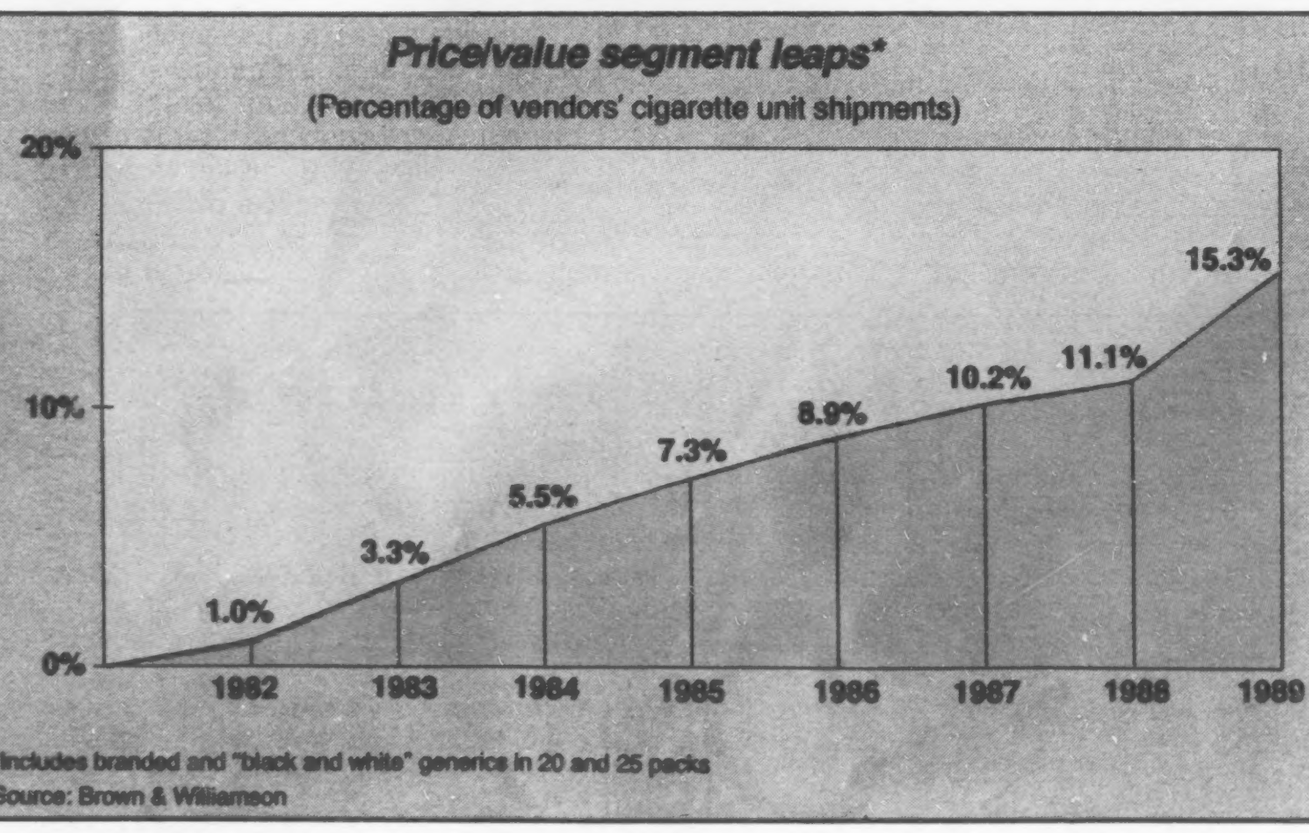
Cricket, owned by Wilkinson Sword, will also imprint as part of a drive to spotlight the Cricket name. Lighters will carry the Cricket symbol shown in various poses, including an astronaut, a skateboarder and a punk rocker, a Cricket spokesman said.

Cricket is also introducing a new "S-shaped" blister card it says saves pegboard space, and will feature a national sweepstakes this year.

Cricket, according to several sources, has elbowed past Scripto/Tokai for the number two market share position. It is estimated to have 16 percent, compared with Scripto's 14 percent and Bic's 55-60 percent of the market.

*Price/value segment leaps**

(Percentage of vendors' cigarette unit shipments)



*Includes branded and "black and white" generics in 20 and 25 packs

Source: Brown & Williamson

Bill proposes new agency to regulate tobacco advertising and ingredients

WASHINGTON, D.C. — Tobacco interests are battling a U.S. Senate bill that would create a new agency to regulate tobacco-product ingredients and advertising, and spearhead stepped-up education and counter-advertising on the negative effects of tobacco.

Sponsored by Sen. Ted Kennedy (D-Mass.) and Sen. Orin Hatch (R-Utah), the bill would also restore to states and localities the power to write their own tobacco product labeling and advertising laws. Now the federal government has "preemptive power" over the states in that area.

The agency would be called the Center for Tobacco Products, and be under the Center for Disease Control, which is part of the Department of Health and Human Services (HHS).

"It's unnecessary, it's unfair and the thinking behind the bill is based on false premises," said Michael Kerrigan, president of the Smokeless Tobacco Council. "This is the most significant piece of anti-tobacco legislation that I've seen in the last 12 years," he added.

Tobacco interests argue that restoring state and local control over advertising will create a confusing universe of laws, and that the agency would be redundant. Louis Sullivan, HHS secretary, testified last month that the existing Office of Smoking and Health covers many of the issues proposed for the new agency.

Smokeless tobacco interests further say the bill would require them to give up trade secrets by revealing products' ingredients.

"We have about eight co-sponsors now and support for the bill seems to be gaining momentum," said a spokesman in Sen. Kennedy's office.

A significant rewrite?

However, a second source involved with the legislation maintained the bill is likely to be "significantly" rewritten in order to address opponents' concerns that it infringes on freedom of advertising.

The aspects most likely to be retained would be those providing resources for counter-advertising and more education, including $185 million in local/state grants, the source predicted.

Bartell Drug store features a strong presentation of pipe tobacco, cigars and smokeless products.

Vendor shipments of cigarettes dropped 6 percent in 1989

(Billions of cigarettes)

Year	Shipment
1989	524.0
1988	557.8
1987	570.4
1986	582.8
1985	595.1
1984	600.2

Source: John Maxwell, Jr., Wheat First Securities

'This is the most significant piece of anti-tobacco legislation that I've seen in the last 12 years.'
—Michael Kerrigan Smokeless Tobacco Council

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The 1990 Directory of Drug Store and HBA Chains

(published December, 1990)

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27 more executives, directors and managers in actual listing.

Arbor Drugs, Inc. 87
3331 W. Big Beaver Rd. **Troy**
Telephone: 313 643-9420 48084
Mailing Address: P.O. Box 2510 Troy MI 48007

Product Lines: Jlry, Grocery, Candy, Tobacco, Convenience Foods, Soft Drinks, Snack Foods, Beer, Wine, Liquor, Personal Care, Rx, HBA, Toiletries, Cosmetics, OTC Drugs, Baby Needs, Hair Care, Ethnic HBA, Sunglasses, Contact Lenses, Drug Sundries, Hswe, Giftware, Home Paper Prdts, Greeting Cards, School Supplies, Stationery, Toys, Seasonal, Books/Magazines. **Sales:** $300,198,000 (07/31/89); $246,514,000 (07/31/88); $215,291,000 (07/31/87). **Number of Stores:** 87 (87 Rx.). **Store Prototype Sizes:** 10,000 sq. ft. **Total Square Feet:** 740,000. **Store Names:** Medical Center Pharmacies (5), Arbor Drug (82). **Distribution Center(s):** Novi, MI. **Computerized Rx:** Yes, #. **Pharmacies:** 80 **% Sales:** 35% Pharmaceuticals, 22% HBA. **Liquor Served:** Beer, Wine, Liquor. **Private Label Nonfoods:** Yes. **Self Distributing:** Yes. **Buy By Committee:** No. **Buying Hours:** 8:00 a.m.-5:00 p.m. **Accept Drop Shipment:** Yes. **Accept Automatic Distribution:** No, UCS Ordering System: No. **Depts Plan-O-Grammed:** All debts.; planned as needed. **Year Founded:** 1974. EUGENE APPLEBAUM-Chairman, President, CEO. MAX ERNST-ExVP, COO. GILBERT C. GERHARD-VP, Administration, Finance. ERIC BOLOKOFSKY-VP, Mdsg. DONALD STUTRUD-VP, Store Operations. ROBERT BEALE-VP, Real Estate. DENNIS WOZNIAK-VP, Purchasing. ROB FEKARIS-Corporate Controller. KEN GUERRINI-Asst Controller. THOMAS ROSS-Asst Treas. LEONARD TEMPALSKI-Dir, Store Operations. CHARLES KEELER-Dir, Administration. JOE DUFFY-Dir, Medical Center Pharmacies. JOHN ENOKIAN-Dir, Health Services. ROBERT O'BRIEN-Dir, MIS. DAVID RIZZI-Dir, Pharmacy Operations. CAROL BUGDALSKI-Dir, Pharmacy, Development. KENNETH R. CASTEL-Dir, Human Resources.

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FINANCIAL

Fourth-qtr. expenses can't rain on Fay's record year-end results

LIVERPOOL, N. Y. — Fay's, Inc. saw net earnings drop in its fourth quarter ended Jan. 27, but still showed record results for year-end revenues, net earnings and earnings per share for the year, the company annouced.

For the year, net earnings were $10.4 million, or 68 cents per share, up from $10.0 million, or 66 cents per share, the previous year. Revenues climbed 9 percent to $574.1 million.

For the fourth quarter, net earnings were $3.5 million, or 23 cents per share, down from last year's $4.8 million, or 32 cents per share, for the period. Revenues did increase 8 percent to $161.7 million for the quarter.

Henry A. Panasci, Jr., Fay's chairman, noted that "soft sales of seasonal merchandise. . . resulting in larger-than-expected markdowns" hurt earnings performance for the quarter, as did expansion-related administrative costs and POS system implementation expenses.

Measures were being implemented to contain expansion costs, Panasci added. During the fiscal year, Fay's opened 11 super drug stores, eight Wheels Discount Auto Supply stores, three Paper Cutter stores and purchased 11 bantam drug stores.

Fay's board of directors declared a 5-cent regular quarterly cash dividend payable April 13, 1990 to shareholders of record March 30, 1990.

Arbor's 2nd-quarter results are strong

TROY, Mich. — Arbor Drugs, Inc. just keeps rolling along, if its strong results for the second-quarter ended Jan. 31 are any indiction.

The 92-store chain saw net income rise for the period from last year's $3.2 million, or 33 cents per share, to $3.7 million, or 38 cents per share, on $90.5 million in sales—a 12.0-percent increase. Comparable-store sales increased 7.9 percent.

For the six months, net income rose 28.1 percent, to $6.1 million, or 64 cents per share, on sales of $169.7 million—a 14.3-percent hike. A 10.0 percent gain was recorded for comparable-store sales for the period.

Contributing to the strong performance was "exceptional strength in our growing pharmacy department," according to Eugene Applebaum, chairman, president, and ceo. Applebaum expected additional contributions to the bottom line now that Arbortech Plus, an enhanced pharmacy computer system, as well as a POS system are on-line.

While noting "we are pleased to report the results acheived in our comparable stores," Applebaum acknowledged that "a key part of our growth strategy hs been the opening of new drug stores." Five units were opened during the second quarter, he said.

Rubber gloves snap at Moore's profits

NEW BRITAIN, Conn. — The Great Rubber Glove Massacre of 1988 has claimed another victim. Moore Medical Corp. announced it would take a $4.2-million charge for costs and reserves associated with latex examining gloves ($2.5 million after taxes), which it expected would lead to losses being posted for the fourth quarter and year ended Dec. 30, 1989. Those figures had yet to be released as *Drug Store News* went to press.

Moore becomes the second major wholesaler to absorb losses taken from devalued glove inventories. Owens & Minor last month announced it had taken a $2.5-million pretax loss for similar reasons *(DrSN, March 5, 1990, p. 46)*.

AIDS-related health concerns had depleted glove supplies during 1988, forcing many wholesalers to seek gloves from alternative suppliers. Huge inventories were bought, but demand soon fell and with it, prices. Moore had expensed $11.4 million on gloves for 1988; after the current charge, its glove inventory is now valued at $1.3 million, the company said.

Bergen offering debt/equity swap

ORANGE, Calif. — Bergen Brunswig Corp. has authorized a tender offer of Class A common stock, at $14.88 per share, for $40 million of its 6⅞-percent exchangeable subordinated debentures due 2011, at $800 per $1,000 of principal. Bergen has $43 million of such debentures outstanding.

MARKET DIARY:

Largest Dollar Gainer	Melville Corp., Wal-Mart	$ 4.13
Largest Dollar Loser	Warner-Lambert	$ – 6.13
Largest Percentage Gainer	Columbia Labs	16.67%
Largest Percentage Loser	Zenith Labs	–25.00%

Advances	28
Declines	25
Unchanged	2
New highs	2
New lows	10

	Close 2/20/90	Close 3/13/90	Net Change	Percent Change
Drug Store News Index	2724.91	2722.80	– 2.11	– 0.08
Dow Jones Industrial Average	2596.85	2674.55	77.70	2.99
Standard & Poor's 500-Stock Index	327.99	336.00	8.01	2.44
N.Y.S.E. Composite	181.37	185.25	3.88	2.14
Value Line Index	238.96	244.30	5.34	2.23

Source: Nordby International Inc., Boulder, Colo.

Exch	Company	Ticker Symbol	Closing Price 2/20/90	Closing Price 3/13/90	Net Change In Period	Percent Change In Period	P/E Ratio	Annual Dividend Rate	Annual Dividend Yield	Annual High	Annual Low
Chain store transactions											
OTC	Arbor Drugs	ARBR	20.00	16.50	– 3.50	– 17.50	15	0.16	0.97	24.75	10.88
OTC	Big B	BIGB	12.88	11.38	– 1.50	– 11.65	16	0.16	1.41	15.25	10.63
OTC	Drug Emporium (L)	DEMP	7.50	7.50	0.00	0.00	11	0.20	2.67	16.38	6.88
NYS	Fay's Inc. (L)	FAY	8.25	8.13	– 0.13	– 1.52	12	0.20	2.46	15.00	7.88
ASE	Genovese Drug (L)	GDX.A	9.50	8.25	– 1.25	– 13.16	12	0.24	2.91	12.88	8.13
OTC	Leroy Pharmacies	LERY	5.63	5.25	– 0.38	– 6.67	– 13	0.00	0.00	5.75	2.88
NYS	Longs Drug Stores	LDG	39.13	39.63	0.50	1.28	13	0.96	2.42	48.50	34.50
OTC	Medicine Shoppe	MSII	20.00	21.25	1.25	6.25	22	0.16	0.75	23.25	16.38
NYS	Perry Drug	PDS	8.88	8.75	– 0.13	– 1.41	15	0.00	0.00	12.88	7.38
NYS	Rite Aid Corp.	RAD	32.00	32.63	0.63	1.95	16	0.88	2.70	41.13	29.50
NYS	Walgreen Co.	WAG	40.88	42.38	1.50	3.67	17	0.80	1.89	50.25	34.63
Wholesaler's transactions											
ASE	Bergen Brunswig	BBC	22.00	25.00	3.00	13.64	14	0.32	1.28	27.25	20.50
OTC	Bindley Western Ind.	BIND	9.75	9.88	0.13	1.28	19	0.00	0.00	10.75	7.50
OTC	Cardinal Distribution	CDIC	21.75	20.75	– 1.00	– 4.60	16	0.08	0.39	25.00	14.88
OTC	Durr-Fillauer	DUFM	21.13	21.88	0.75	3.55	14	0.24	1.10	24.38	18.00
ASE	Ketchum	KCH	2.88	2.50	– 0.38	– 13.04	– 1	0.00	0.00	7.13	1.63
NYS	McKesson Corp.	MCK	35.38	36.50	1.13	3.18	15	1.44	3.95	39.75	29.63
ASE	Moore Medical (L)	MMD	7.50	6.88	– 0.63	– 8.33	– 3	0.00	0.00	15.13	6.75
NYS	Owens & Minor	OMI	11.25	11.38	0.13	1.11	38	0.24	2.11	14.00	10.63
Manufacturer's transactions											
NYS	Abbott Labs	ABT	64.38	63.50	– 0.88	– 1.36	16	1.68	2.65	70.38	51.00
NYS	American Home Products	AHP	100.75	101.25	0.50	0.50	14	4.28	4.23	110.25	84.13
NYS	Baxter International	BAX	23.88	24.13	0.25	1.05	16	0.64	2.65	26.25	18.63
OTC	Block Drugs Co.	BLOCA	34.25	34.38	0.13	0.36	13	0.68	1.98	38.00	30.63
ASE	Bolar Pharmaceutical (L)	BLR	8.75	7.38	– 1.38	– 15.71	4	0.16	2.17	32.25	3.50
NYS	Bristol-Myers Squibb	BMY	53.00	52.25	– 0.75	– 1.42	37	2.12	4.06	58.25	45.75
NYS	Carter-Wallace	CAR	53.63	52.38	– 1.25	– 2.33	16	0.80	1.53	60.50	39.13
ASE	Columbia Labs (L)	COB	12.00	14.00	2.00	16.67	– 45	0.00	0.00	17.88	8.88
ASE	Forest Labs	FRX	40.25	38.00	– 2.25	– 5.59	28	0.00	0.00	44.50	28.63
NYS	ICN Pharmaceutical (L)	ICN	4.63	4.00	– 0.63	– 13.51	– 1	0.00	0.00	6.88	3.50
ASE	Lee Pharmaceutical	LPH	2.00	1.88	– 0.13	– 6.25	– 9	0.00	0.00	4.75	1.75
ASE	Leiner P. Nutrition	PLI	9.25	10.00	0.75	8.11	16	0.00	0.00	14.25	8.75
NYS	Lilly Eli Co.	LLY	61.63	61.88	0.25	0.41	19	1.64	2.65	69.25	49.38
NYS	Marion Labs	MKC	25.50	22.50	– 3.00	– 11.76	94	0.60	2.67	36.63	22.50
NYS	Merck Co.	MRK	70.88	67.13	– 3.75	– 5.29	18	1.80	2.68	80.75	63.13
NYS	Mylan Labs	MYL	20.88	21.50	0.63	2.99	38	0.20	0.93	25.38	7.88
NYS	Par Pharmaceutical	PRX	7.00	7.25	0.25	3.57	363	0.00	0.00	11.25	3.88
NYS	Pfizer Inc.	PFE	65.00	59.25	– 5.75	– 8.85	15	2.40	4.05	75.75	54.50
NYS	Rorer Group (H)	ROR	61.50	65.38	3.88	6.30	24	0.84	1.28	67.63	36.13
NYS	Schering Plough	SGP	77.75	77.00	– 0.75	– 0.96	18	1.80	2.34	87.50	61.00
NYS	Syntex Corp.	SYN	49.63	49.50	– 0.13	– 0.25	18	1.48	2.99	54.50	39.25
OTC	Taro-Vit Industries	TAROF	1.00	1.00	0.00	0.00	33	0.00	0.00	1.88	1.00
NYS	Upjohn Co.	UPJ	34.88	35.50	0.63	1.79	37	1.00	2.82	42.13	27.63
NYS	Warner-Lambert	WLA	107.50	101.38	– 6.13	– 5.70	17	3.04	3.00	118.75	79.75
OTC	Zenith Labs	ZENL	7.00	5.25	– 1.75	– 25.00	—	0.00	0.00	14.00	3.50
Other retailer transactions											
NYS	Albertson's	ABS	51.25	55.13	3.88	7.56	19	0.96	1.74	60.25	38.63
NYS	American Stores (L)	ASC	55.38	56.00	0.63	1.13	16	1.00	1.79	72.50	51.38
NYS	Giant Food	GFS.A	25.25	26.38	1.13	4.46	15	0.48	1.82	36.25	22.50
NYS	Great Atlantic&Pacific Tea	GAP	52.25	50.88	– 1.38	– 2.63	0	0.00	0.00	65.38	47.00
NYS	K mart (L)	KM	32.50	33.75	1.25	3.85	21	1.64	4.86	44.88	32.13
NYS	Kroger	KR	13.50	12.88	– 0.63	– 4.63	– 56	0.00	0.00	19.75	9.75
NYS	Melville Corp.	MES	43.88	48.00	4.13	9.40	13	1.40	2.92	53.63	39.50
OTC	Fred Meyer (L)	MEYR	16.50	16.75	0.25	1.52	13	0.00	0.00	23.00	14.75
NYS	Penney, JC	JCP	64.25	68.00	3.75	5.84	11	2.24	3.29	75.63	52.13
NYS	Smith's Food & Drug (H)	SFD	24.25	25.50	1.25	5.15	22	0.28	1.10	25.50	20.50
NYS	Wal-Mart	WMT	41.75	45.88	4.13	9.88	24	0.28	0.61	47.38	30.00

Key: (H) = New high in period. (L) = New low in period. (d) = Deficit. NYS = New York. ASE = American. OTC = Over the counter. (s) = Reflects stock split.
Source: Nordby International, Inc., Boulder, Colorado

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Despite woes, generics seen gaining share

By Deane Evans

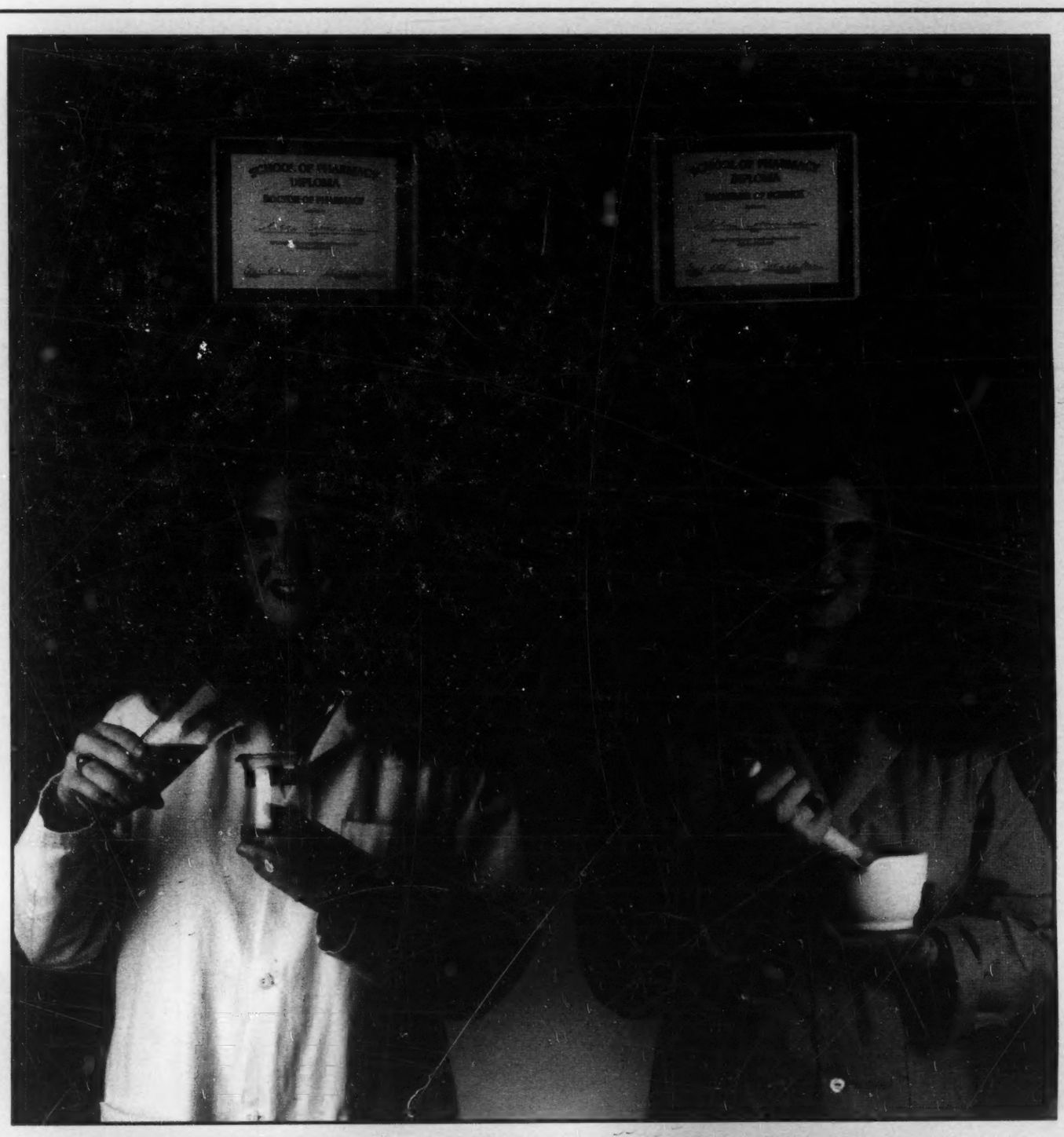
WASHINGTON — Federal economists predict that despite recent improprieties surrounding the approval of generic drugs, they will command a larger share of the pharmaceutical market in 1990. This has brand-name companies stepping up their efforts to introduce innovative products into the prescription marketplace.

Inside Pharmacy SPECIAL REPORT

According to a Department of Commerce report, manufacturer sales of generic drugs rose from $5 billion in 1988 to an estimated $7 billion last year, increasing the generic share to more than 30 percent of all prescription sales (up from 25 percent the previous year).

Significantly, government economists also predict that questions raised during recent Congressional hearings about the quality of specific generics will cause only a tem-

Continued on page IP22



Pharm.D. degree gets workout

By Elizabeth Richardson

To Pharm.D. or not to Pharm.D.—that is the question facing pharmacy executives, educators and practitioners as the profession heads into the 21st century.

The debate over whether America's 74 colleges of pharmacy should offer a Doctorate of Pharmacy (Pharm.D.) degree as their only undergraduate degree has raged for years. While only 12 colleges of pharmacy currently offer a Pharm.D. as their sole entry-level degree, if the intensity of recent arguments is any indication, implementation of Pharm.D.-only degrees in *every* college of pharmacy could become a reality by the end of this century.

The latest battle surfaced last September, when the American Council on Pharmaceutical Education (ACPE) proposed a declaration of intent, stating: "Based on the council's analysis and assess-

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Inside

FEATURES

A special edition of "You Be the Judge" examines the ramifications of a pharmacist's 'duty to warn.' **8**

12 *Home pregnancy and ovulation test kits are giving increased strength to the family planning category.*

Personalized service gives independent Sun Drugs an edge in a Scottsdale market dominated by chains. **16**

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DRUG STORE NEWS® INSIDE PHARMACY PHARMACIST EDITION

Federal study predicts market gains for generic drugs

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porary glitch in the upward trend for these products.

"Though sales of generics will slow to some degree due to recent publicity about questionable FDA approval of some generic prescription products, faster growth will resume as medical practitioners and patients regain confidence in the approval system," they said.

New generics due to reach the market will also increase generic sales. According to one study, more than 200 prescription drugs will lose their patent protection by the end of 1994, making them vulnerable to generic competition.

At the same time, manufacturers of name-brand drugs are stepping up new product development to increase their competitiveness with generic products.

Researchers reported that the industry invested an estimated $7.3 billion in research and development of new drugs in 1989, up 12 percent from 1988 investments. Total U.S. prescription drug sales by manufacturers reached $23 billion in 1989, a 9.9 percent increase from the previous year.

Although prescription products are generating the biggest increases in pharmaceutical shipments, over-the-counter drug sales also experienced growth. In 1989 the value of OTC product shipments increased 4 percent to $9 billion.

"Self medication by patients, both on their own initiative and at the behest of medical practitioners, is growing in acceptance," Commerce Department researchers said.

According to the new government figures, nonprescription drugs accounted for more than one-third of the value of last year's pharmaceutical product shipments.

Forecasters expect the total value of pharmaceutical product shipments (including both prescription and OTC drugs) to rise steadily for the next five years. Manufacturer sales reached $31.6 billion last year, an increase of 8.7 percent.

After adjustment for inflation, the 1989 growth represented a 2.8 percent increase. Similar inflation-adjusted gains of between 2 percent to 3 percent are predicted through 1994.

Although the government's forecast for drug manufacturer sales is rosy, the outlook for prescription sales growth at the retail level is somewhat dimmer due to rising competition from mail order prescription services.

According to forecasters, since senior citizens are the greatest users of mail order drug products, purchases through the mail "will become more common as the population ages." Economists predicted that the value of shipments of mail order prescriptions will reach $2.5 billion by 1994.

Trends and forecasts: drugs

(In millions of $)

Item	1987*	1988**	1989**	% Change 88-89
Value of all drug shipments:†	$35,054	$38,344	$41,516	+8.3%
Medicinals/Botanicals	4,222	4,698	5,116	+8.9
Pharmaceutical Preps.	26,475	29,066	31,584	+8.7
Diagnostic Substances	2,621	2,757	2,910	+5.5
Bio Prods. (ex. diagnostics)	1,736	1,823	1,906	+4.6

*Preliminary
**Estimated
†Value of products classified in the drugs industry produced by all industries.

Source: U.S. Department of Commerce: Bureau of Census, Bureau of Economic Analysis, International Trade Administration

New generics due to reach the market will also increase generic sales. According to one study, more than 200 prescription drugs will lose their patent protection by the end of 1994, making them vulnerable to generic competition.

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Dosage and Administration: Experimental dosage reported in treatment of erectile impotence.[1,3,4] 1 tablet (5.4 mg) 3 times a day, to adult males taken orally. Occasional side effects reported with this dosage are nausea, dizziness or nervousness. In the event of side effects dosage to be reduced to ½ tablet 3 times a day, followed by gradual increases to 1 tablet 3 times a day. Reported therapy not more than 10 weeks.[3]

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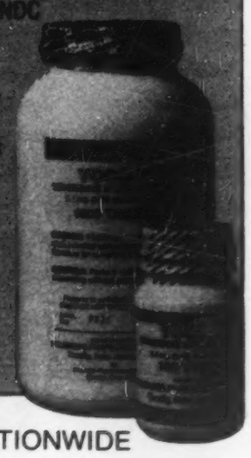

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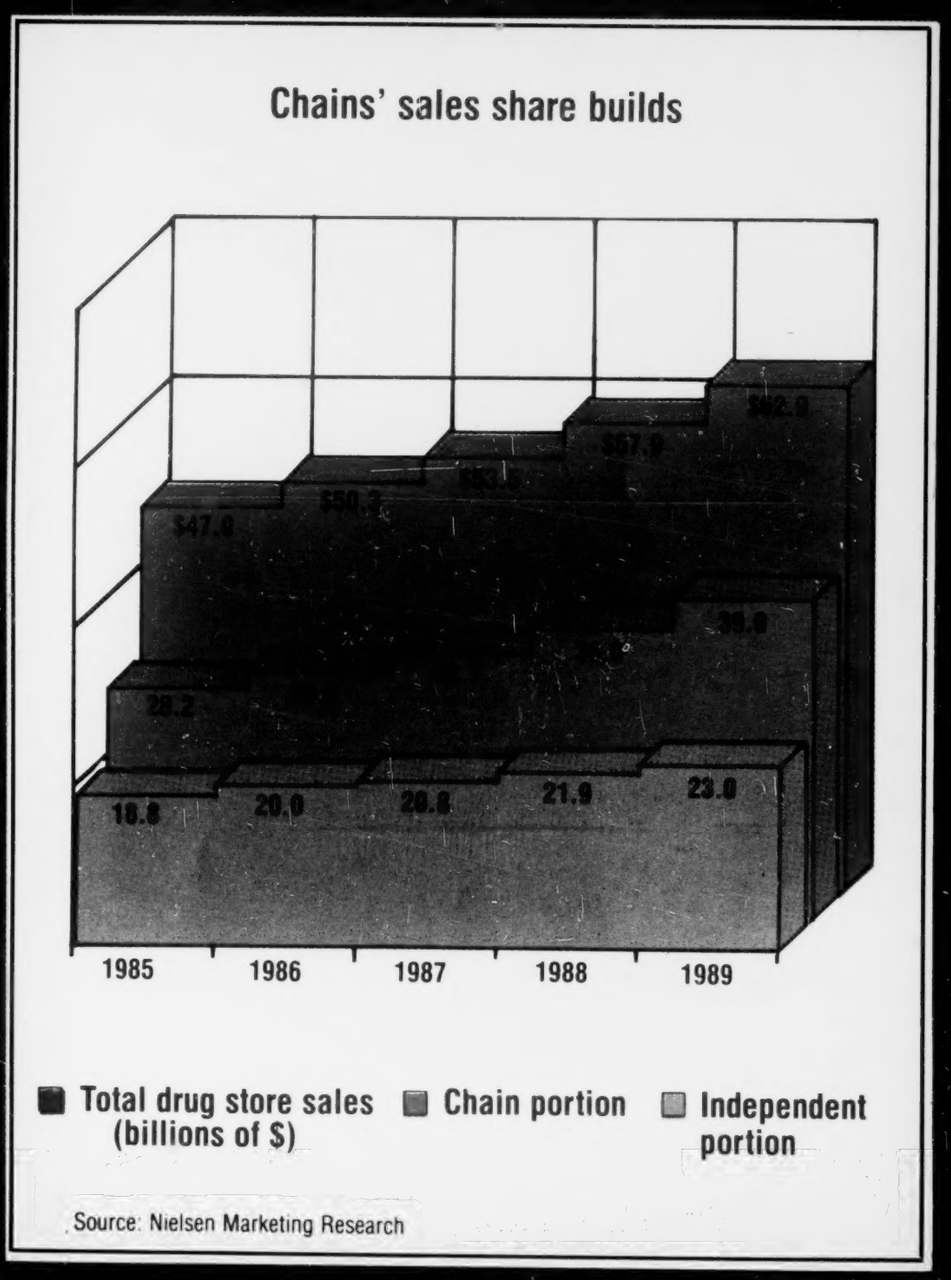
Vol. 12/No. 7 **Our 62nd year of serving chains, wholesalers and high-volume independents** Published by Lebhar-Friedman Inc. Apr. 9, 1990

Annual Report Part I:

Chain volume up sharply



Powered by strong gains in pharmacy and by the rapid ascent of the deep discount segment of the business, chain drug store sales rose 11 percent in 1989 to $40 billion, the second year in a row in which the chain drug industry registered a double-digit increase.

Overall, drug stores recorded a 9 percent gain in 1989 dollar volume to $63 billion. Independents, with sales up only 5 percent, continued their long slide in market share versus the chains. Still, the long-predicted demise of the independents seemed just as far off as ever; as strong wholesaler programs plus a commitment to full-service community pharmacy kept the strongest independents competitive in their market niches.

The chains themselves have had to go to war on their own competitive battlegrounds. Facing powerful margin pressures from food chains and mass market retailers, drug chains for the most part avoided price clashes and concentrated on their strengths: convenient locations, easy-to-shop stores and a product mix stressing everyday consumer needs. The chains accelerated the trend toward a tightly focused assortment emphasizing OTC, toiletries, cosmetics, greeting cards, film and photo processing, convenience foods, and seasonal necessities.

The concentration on core categories was bolstered by an increasing investment in store remodels. Chain after chain freshened up their prototypes with sharp new decors, improved lighting and uncluttered aisles, and rolled them out in their markets. The goal: to produce maximum return on their existing store base by improving shopping ease and realigning categories and shelf allotments for faster movement.

At the same time, chains focused most of their growth efforts on greater penetration of existing markets, rather than venturing into new ones. There were exceptions to this policy, including Rite Aid's continued willingness to acquire blocks of stores and the breathless race of deep discounters to establish bases in new markets across the country. But in 1989 even Rite Aid's expansion pace slowed.

Drug stores record a 9% gain to $63 billion.

During the year, drug chains also increased their investment in advanced management systems designed to improve efficiency in distribution, inventory control, pharmacy, front-end operations, and labor

Continued on page 33

BEST AVAIL

NEWS IN BRIEF

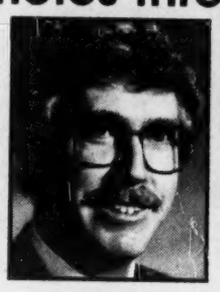
Big B names vp-professional relations

BIRMINGHAM, Ala. — Big B named Dr. Timothy Burelle to become of vp-professional relations, effective with the retirement this June of John F. Hight Jr., who has served in the position since 1979.

Burelle, who has been dean of the Samford University School of Pharmacy since 1985, will be responsible for the operation of Big B's 300 pharmacies. The chain opened its 300th store in February.

Burelle joined the Samford faculty in 1973. He holds a pharmacy degree from Samford, a Doctor of Pharmacy from the University of Tennessee and a Master's degree in public health from the University of Alabama in Birmingham. He is a member of the American Pharmaceutical Association and the American Association of Colleges of Pharmacy, as well as several other national and regional pharmacy professional organizations.

Thrift promotes three buyers



Horn

Sheets

Patterson

PITTSBURGH — Thrift Drug announced three appointments on its buying staff. Bruce Horn has been named senior buyer of OTC drugs, Marty Sheets has been appointed senior cosmetics and fragrances buyer and Ken Patterson has been tapped as senior buyer with major responsibility for greeting cards, stationery, photo, and reading and sunglass products.

Horn, who joined Thrift in 1978, was formerly an OTC buyer and will continue to be responsible for purchasing activities and decisions for all OTC drugs except private label. In addition, he will supervise the returns administration area.

Sheets was a buyer for cosmetics and toiletries and will assume additional vendor responsibilities in the cosmetics/fragrances area. She has been with Thrift since 1976.

Patterson joined Thrift in 1974 and worked as a management trainee and merchandise manager before being promoted to buyer in 1978.

Horn and Sheets will continue to report to general merchandise manager Don Green. Patterson will continue to report to Tom Kutosky, vp-merchandise.

Krelitz to buy Eagle, drug wholesaler

MINNEAPOLIS — Krelitz Industries, Inc. has signed a letter of intent to buy Eagle Drugs, Inc., furthering its plan to emphasize drug distribution. A definitive agreement for Krelitz's purchase of all outstanding shares for an unnamed amount is expected soon, Krelitz announced.

Eagle, based in Eden Prairie, Minn., is a pharmaceutical, H&BA and general merchandise wholesaler, which, according to a source, posted about $35 million in sales for its latest year.

In its plans to divest non-drug businesses, Krelitz will close "momentarily" on a pact to sell its James Phillips Co., a medical and surgical supply distributor. It is still "actively pursuing" the sale of Ulmer Pharmacal, a maker of skin care products, according to Barry Krelitz, president and ceo.

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NWDA Marketing Conference stresses a new business era

By James Frederick

ATLANTA — After decades of using technology to drive down operating costs and gross margins while boosting sales, the wholesale drug industry must find new ways to stabilize gross margins and increase market share, according to Charles Trefrey, president and ceo of the National Wholesale Druggists' Association.

In a talk at the NWDA's 1990 Marketing Conference here last month, Trefrey called for a new approach to boosting sales and profits for the nation's drug wholesalers. "We've been playing the same game for about 30 years, starting when we brought technology into the business," he told NWDA members March 22. "We've enjoyed tremendous market share growth and tremendous sales growth, while driving down operating costs. *(Extended show coverage will be featured in Inside Pharmacy, April 30, 1990.)*

"We're headed in a bad direction. We're at the point where we can no longer drive operating expenses down as fast or as far as we used to, and gross margins can't continue to come down as they used to," Trefrey said. "We've reached the end of an era—we're a world-class, unbeatable distribution system, but we are not yet on top of it."

Trefrey called on drug wholesalers to manage their margins more effectively and find new ways to build their business through value-added services to independent and chain drug retailers. He also made another broad appeal for NWDA members to attend a series of "no-holds-barred" seminars on the future of the industry, to be held May 15-17 at the O'Hare Airport Hyatt Regency in Chicago.

Trefrey's comments came against a backdrop of unprecedented growth in the wholesale drug industry. As NWDA members gathered in Atlanta for a four-day round of high-level meetings with supplier companies, the industry marked the end of a decade of enormous market share increases, increased distribution efficiencies and consolidation.

Between 1980 and 1988, noted NWDA chairman Erwin Dohmen, drug wholesaler sales tripled to $22.2 billion, and should reach $80 billion a year by the year 2000. The industry is handling an ever-increasing number of products, as well—from 6,410 SKUs in 1987 to 8,662 the following year.

The annual Marketing Conference gives wholesalers and their product vendors a chance to meet and iron out differences at the executive level. This year's trade show brought together 289 wholesaler executives and more than 900 supplier representatives and associate NWDA members in four days of intensive, one-on-one meetings, with two days each set aside for wholesaler meetings with pharmaceutical and front-end suppliers.

Both wholesalers and vendors praised the conference's intensive work ethic and booth format. "It allows us to review the business and tell our wholesalers what we're planning and how our new products will impact their business, and it gives them the opportunity to present areas of concern," noted Joe Kieble of Upjohn.

Discounters make moves on Rx, OTCs, H&BAs:

K mart eyes drug store goods in revamp plans

TROY, Mich. — With pharmacy and health and beauty aids playing a greater role in modernized stores, K mart will spend $1 billion more than originally planned over the next five years to significantly accelerate store expansion and improvement efforts.

The giant retailer recently announced its plan to boost capital spending from an original target of $1.3 billion to $2.3 billion for the five-year expansion and renovation effort. The accelerated store modernization program "will involve virtually all U. S. K mart discount stores," according to chairman and ceo Joseph Antonini.

250 new stores planned

"There will be approximately 250 new full-size K mart stores, 620 enlargements, 280 relocations and 30 closings," Antonini said. "In addition, approximately 1,260 stores will be refurbished to bring their layout and fixturing up to new store standards."

All stores will be brought up to the chain's new standards by 1994, he added. To fund the program, K mart took a $640 million pretax charge against its fiscal 1989 results.

K mart's decision to pour more capital into store growth and modernization is part of an intensive effort to counter the rapid gains made by Wal-Mart and other rivals, including Target Stores. Although K mart remains the sales leader among mass merchants, Wal-Mart is growing far more rapidly in both overall and same-store sales, and is expected to surpass its older and more-established competitor in the near future.

To deal with the threat and spark a resurgence in sales and profits, K mart adopted a two-pronged strategy. The first part of that strategy has been efforts to refurbish, relocate and expand its stores; the second was a massive price reduction on about 5,000 name-brand, core items to "maintain our price leadership," said Antonini. The price reductions have squeezed profitability but positioned the chain for the long term, he added.

Remodeling pace heats up at Fred Meyer

PORTLAND, Ore. — Fred Meyer said it will enter its second year of accelerated growth, with five new "multi-department" stores opening and 10 others being remodeled in 1990.

This is up from last year's pace, when Fred Meyer opened four stores and remodeled 10, said Frederick Stevens, chairman and ceo.

Fred Meyer operates 126 stores, including 95 in the multi-department format; many have full supermarkets, and over 60 have drug store sections with pharmacies.

The innovative retailer also announced it will totally replace its existing Honeywell computer system, including point-of-sale terminals in the stores. The company will spend $60 million for a state-of-the-art MIS system based on IBM host computers, and IBM 4680 cash registers. The register conversion will be completed by early 1991, and the host system conversion by the end of 1992, Stevens said.

The decision to move from Honeywell to IBM was based on the availability of systems supporting various functions, plus "lower future costs associated with operating the new systems," he added.

As a result of costs from the computer overhaul, and other costs and non-cash charges stemming from its store growth program—which created $49 million in pre-tax write offs in the fourth quarter—Fred Meyer said it posted a loss of $6.8 million for the fiscal year ended Feb. 2. That compared with a $36.6 million profit the year before. Sales reached $2.28 billion, up from $2.07 billion in the prior year.

Stevens said the loss stems from a variety of moves designed to position the company for future success.

ABLE COPY

OPINION

Drug store industry's vital signs strong

IN THE MARKET
BRUCE BUCKLEY

The pulse rate is good, the heart is healthy. There's far less of those lethal fatty deposits gunking up the arterial system.

What am I talking about? The drug store industry—particularly the chain drug portion of the industry. In our Annual Report published in this issue, we make note that in 1989 drug store sales were up by a strong nine percent, to $63 billion, while chain drug store sales alone rose 11 percent to $40 billion.

Why such a good year when other retail segments experienced the long overdue softening of consumer spending? There's more than one reason, of course, but the main one is the growth of the retail pharmacy business. It's become almost a cliché to talk about the far-reaching effect that a longer-lived population will have on the nation's drug stores. Explosion may be too strong a word, but it's not too far from reality. I mean, just mention the word gray and everyone starts seeing green.

Small wonder then that everyone is trying to get in on the act, from food stores to mass merchandisers to convenience stores to doctors to hospitals. It's like a poker game. The pots get big enough and everyone's adrenalin begins to pump. What the latest sales figures show is that the drug stores are so far holding their own against the high-stakes crowd. For prescriptions, consumers by and large still prefer the drug store's neighborhood convenience and small scale to the endless acres of the super food stores and giant discount chains. In consumers' minds, drug stores are still more convenient for having their latest roll of film developed, for picking up greeting cards or looseleaf paper, or for buying lipstick or eye shadow.

That's not to say the competition hasn't had an impact. Price pressures are forcing drug retailers into finding other ways of sustaining their bottom lines. Efficient distribution and inventory management have become crucial weapons in the battle to control costs. Just as important: retailers' endless efforts to fine-tune their mix for maximum turns. Investment in technology to drive these efforts grew every year in the eighties, and will continue to increase in the coming decade.

Meanwhile, greater investment is also being made in stores to create a pleasant shopping atmosphere and keep customers coming back. Look at what Eckerd, Perry, Pay Less, Walgreens, Arbor, Fantle's and Revco (to name just a handful) have done in revitalizing and maintaining their store base. It's clear there's more than one way to grow the business.

While the industry's prospects are good, there are some ominous trends ahead. Demographics feeding the business on one end will starve it on the other. Fewer younger people will be available to work in the stores, and the competition for future stock clerks, cosmeticians and managers will drive up salary scales. It's already happening in many places. The growth of third-party prescriptions will put more pressure on margins. And if that weren't enough, more and more stores will crowd the retail landscape.

It's enough to turn a drug store retailer gray. But this week, why not think green, right?

Leaders carefully eye Medicaid reforms

WASHINGTON PERSPECTIVE
KEN RANKIN

The granddaddy of third-party Rx plans—the Medicaid drug program—appears headed for major changes.

At first blush, that may sound like good news to the drug store industry which has been complaining about Medicaid Rx reimbursement for decades. But considering that Medicaid represents an increasingly critical source of revenue for many of the nation's retail pharmacies, industry leaders are carefully sifting through the implications of various Medicaid "reform."

What's in store for Medicaid? Here's a sample:

•The Health Care Financing Administration is pressuring state Medicaid officials to tighten the screws on participating pharmacies by curbing "Average Wholesale Price" drug reimbursement;

•The bi-partisan "Pepper Commission" on comprehensive health care wants to federalize the program as part of a controversial, $66-billion scheme to provide health insurance for all Americans;

•Chrysler's Lee Iacoccca and a number of other major corporate chieftans have joined with organized labor to press for a new national health insurance plan which would absorb Medicaid.

The most recent (and in some respects, the most radical) of these proposals to overhaul Medicaid was advanced late last month by the chairman of the Senate Aging Committee, David Pryor (D-Ark).

Pryor, you may recall, was urged by the National Association of Retail Druggists to investigate soaring manufacturer drug prices in general, and discriminatory pricing practices against drug stores in particular.

Officials at NARD and other drug store industry groups had hoped that Sen. Pryor would challenge the pharmaceutical industry's practice of offerng drugs to hospitals and other institutions at low-ball prices not available to retail pharmacies.

Instead, the new Medicaid "reform" proposal outlined by Pryor is designed to force manufacturers to negotiate prices with state Medicaid program officials—a practice that the drug industry has religiously avoided so far.

Under the plan, federal Medicaid officials would set up an outside "non-governmental" National Pharmacy and Therapeutics Committee responsible for compiling a list of "therapeutic equivalents" which could be used interchangeably to treat certain conditions.

Multi-state buying groups would then negotiate with pharmaceutical manufacturers of the listed therapeutic equivalents. The products of the lowest bidders would be designated "preferred drugs" and pharmacists would be expected to dispense them unless the prescriber specifically demands that the product or brand prescribed be dispensed.

For their part, pharmacists would not only be authorized to engage in therapeutic substitution, but would be required to do so. A separate provision of Pryor's plan would offer pharmacists immunity from liability resulting from the substitution of a "preferred" drug for the one prescribed.

As with the ill-fated Medicare "Catastrophic" Rx drug program, Pryor's proposal for revamping Medicaid would establish a nationwide electronic in-store claims transmission and processing system, as well as pharmacy-based drug utilization review programs.

Details of pharmacy reimbursement under the new plan are skimpy, but Pryor would allow pharmacists to recoup product costs at the lower of the "actual charge" for the drug, or the 90th percentile of all actual charges in the state.

Is this plan the solution to pharmacy's problems with Medicaid? Hardly. At best, it's a well-intentioned scheme designed to cut government spending on drugs. At worst, its a proposal that could reduce the level of care available to the nation's needy and sidestep the concerns of Medicaid pharmacists.

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Inside the '90 Annual Report

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Annual Report Part I:

Chain volume up sharply

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scheduling. Driving the investment in technological efficiencies was the need to cut costs in the face of greater and greater competitive pressures.

At the checkout counter, more chains tested or rolled out scanning systems, as the payback from labor savings, pricing accuracy, inventory control and shrink reduction made the investment more attractive. For the future, retailers see an even greater investment return from the information that scanners will provide, allowing them to tailor assortments to particular markets and react more quickly to sales trends.

Rapidly developing technology was also transforming other areas of chain drug operations. For some technologically advanced companies, communication by satellite offered a faster and less expensive way for headquarters and stores to exchange information.

A handful of chains began to explore direct electronic links between themselves and selected, high-volume suppliers. The ultimate dream of this electronic data interchange, or EDI: faster and more accurate inventory replenishment, increased turns, and lower inventory carrying costs—all in a paperless environment.

Spurred on perhaps by the successful downsizing of several huge supermarket companies, one drug chain performed major surgery on its store base and other planned to follow suit. Peoples sold off sizable blocks of stores in Atlanta and the Midwest in order to concentrate on its successful mid-Atlantic region.

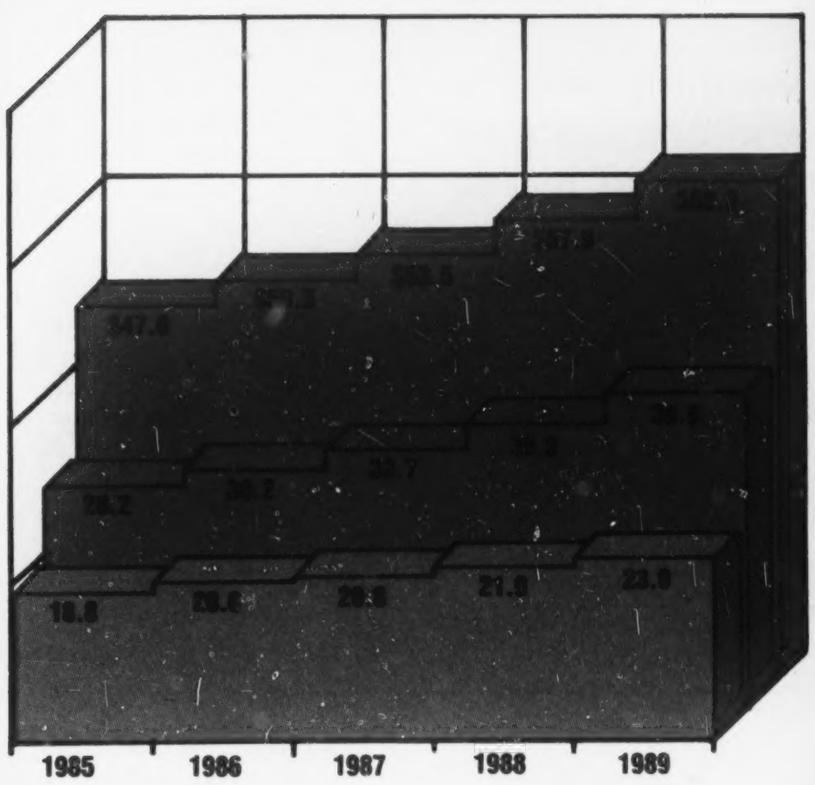
Revco, an LBO chain undergoing reorganization under Chapter 11, said it would sell more than 700 stores outside of its stronghold in the East. The markets targeted for sale included Texas (195 stores), Arizona (102 stores), Florida (55 stores), and Michigan (40 stores). There was plenty of interest from prospective buyers, Revco said.

Peoples' and Revco's need to slim down was the latest and most visible example of the failed growth policies of the seventies and early eighties, when expansion-minded chains competed with one another to acquire anything available.

The promised consolidation of the industry into a handful of mega chains seemed a distant dream, as new chains like SupeRx of Arizona and Reliable Drug continued to be formed. Still, the concentration of sales among the very top chains remained on the rise. By the end of the year, the top 10 chains controlled a 40 percent share of total drug store sales and an almost 63 percent share of all chain drug sales.

For some technologically advanced companies, communication by satellite offered a faster and less expensive way for headquarters and stores to exchange information.

Chains' sales share builds



Source: Nielsen Marketing Research